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TAGS: ECON EFIN EINV PGOV PREL SA

SUBJECT: SAUDIS EASE RESTRICTIONS ON FOREIGN INVESTMENT IN STOCK MARKET

Classified By: DCM David Rundell for reasons 1.4 (b) and (d)

¶11. (SBU) SUMMARY: As part of a broader effort to attract international investment in their stock market, the Saudi Capital Markets Authority approved a plan under which foreign investors can purchase Saudi securities, but without voting rights. Foreign investment firms with offices in Saudi Arabia will be in the best position to take advantage of this welcome liberalization of the market. END SUMMARY.

¶12. (U) According to August 21 media reports, the Saudi Capital Markets Authority (CMA) approved a plan under which Saudi financial institutions would be allowed to enter into swap agreements with foreign investors, providing them with indirect access to the Saudi stock exchange (the Tadawul). While the Saudi institutions will retain legal ownership of the stock, they will pass both risk and profit to the foreign party in exchange for a commission. The agreements cannot exceed four years in length. Historically, foreign investors have been required to hold both a Saudi residence permit and an account with a Saudi bank before they can invest in the Tadawul. As a consequence, in July, trades by non-Saudis constituted less than four percent of total volume. The CMA is expected to provide additional details on these agreements in the next few weeks, including the percentage of a Saudi company which may be held by foreign investors and more details on the how the agreements will be structured.

¶13. (U) Foreign firms with Saudi-registered offices, who already have access to a broad base of international investors, will be in the best position to capitalize on this initiative. Deutsche Bank announced August 25 their intention to offer Saudi securities to their overseas investors as soon as the CMA issues its final regulations.

¶14. (SBU) Embassy contacts in the banking sector describe the plan as relatively straightforward and similar to agreements used in larger, more established stock markets. They identified the lack of voting rights for the foreign investor as the key difference in the proposed Saudi agreements. Initially established in 1994, the Tadawul has been fairly volatile until recently, increasing 700 percent between 2002 and 2005, then declining by more than 50 percent in 2006. It currently has a market capitalization of approximately \$500 billion.

¶15. (C) COMMENT: This step towards the greater liberalization of capital markets here in Saudi Arabia is a positive development. It comes just days after the Tadawul began publishing the names of investors holding more than five percent of a firm on their website. We believe these developments reflect not only a desire among Saudi leaders to continue opening to the outside financial world, but also to attract outside investment in an attempt to boost the Tadawul All-Share Index, which is currently down more than 20 percent

in 2008. END COMMENT.
GFOELLER